

Survey of Japanese Companies in Southern California 2006

JBA

Japan Business Association of Southern California

JETRO, Los Angeles

Japan External Trade Organization

Forward

The Japan Business Association of Southern California (JBA) and the Los Angeles Center of the Japan External Trade Organization (JETRO) have since 1983 conducted surveys in order to obtain a true picture of Japanese companies in Southern California. The results of these surveys have subsequently been utilized in the Association's business-support programs.

We recently completed the "2006 Survey of Japanese Companies in Southern California," the seventh such report, thanks to the cooperation of all parties concerned. We shall dedicate our efforts to promoting a mutual understanding between the United States and Japan by utilizing the survey results in our various activities. Accordingly, we are pleased to offer survey information to those who so graciously lent their support to the project, and we hope they will take the greatest advantage of that information.

The "2006 Survey of Japanese Companies in Southern California" may also be viewed on the websites of JBA (<http://www.jba.org>) and JETRO (<http://www.jetro.org/losangeles>).

Last but not least, we would like to express our sincere gratitude to the JBA members who took the time to answer the survey questionnaire and the Japanese companies that returned the completed questionnaire to JETRO. We'd particularly like to thank JETRO interns Messrs. Hideki Ishikawa, Masato Morita and Takao Isomura, who worked diligently for data collection and aggregation, among others.

November 29, 2006

Takeshi Asao, JBA President

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Survey Objectives and Methodology

1. Survey Objectives

This survey is intended to facilitate an understanding of the business conditions and management environment of Japanese companies with bases in Southern California, and to reflect the survey results in various business-support programs implemented locally. This survey, the seventh of its type, is effective as of January 1, 2006.

Note 1: Southern California, as mentioned in the context of this survey, includes the following 10 counties: Los Angeles, Orange, Ventura, Santa Barbara, Kern, San Luis Obispo, San Bernardino, Riverside, San Diego and Imperial.

Note 2: The past surveys were conducted in 1983, 1987, 1997, 2000, 2002 and 2004, respectively.

2. Survey Targets

The survey is targeted at companies (locally incorporated) wherein at least 10 percent of the capital shares are owned by a company headquartered in Japan, at branch and representative offices of companies headquartered in Japan, and at companies incorporated and operated by individuals of Japanese origin.

3. Survey Methodology

Survey questionnaire forms were sent to a total of 1,194 companies, including the JBA members and other Japanese companies confirmed by JETRO. As of May 22 (the cutoff date), forms were returned by 387 companies (32.4%).

Summary of Survey Results

I. Overview of Japanese Companies in Southern California

1. Geographic distribution

Looking at geographic distribution, nearly 70 percent of all Japanese companies surveyed are located in Los Angeles County, followed by Orange County (slightly less than 20%) and San Diego County (slightly less than 10%).

2. Industrial distribution

Regarding the distribution (ratio) of Japanese companies by industry type, the manufacturing industry accounted for the largest percentage (34.6%). The second-largest industry segment was other services (16.8%), followed by trading (14.5%) and wholesale/retail (12.9%).

3. Corporate structure

Regarding the corporate structures among Japanese companies, approximately 80 percent of the companies responding are locally incorporated. Moreover, two-thirds of these locally incorporated companies still serve as corporate headquarters, which suggests that Southern California plays a vital geographic role for Japanese companies expanding to the U.S. market. The largest investors among two-thirds of those surveyed are Japanese companies, and most of them are wholly owned. These results suggest a trend toward independent, direct investment rather than mergers involving capitalization with local firms.

4. Timing of incorporation

The launches of Japanese companies in Southern California hit a peak in the late 1980s. The trend of declining number of launches by Japanese businesses has been into a bottom-out situation.

5. Revenues

Looking at the revenues of companies responding to the survey, those with revenues of less than \$10 million still accounted for the largest percentage (42.2%). On the other hand, companies generating more than \$100 million in revenue accounted for a notable 23.0 percent, of which more than 10 percent (10.5%) had revenues exceeding \$500 million. The ratio of the last group to the overall sample population doubled since the last survey (2004).

II. Contributions to Regional Communities

1. Job creation

The average number of workers employed per Japanese company was 2,858 among large companies (with 1,000 or more employees), 291 among medium companies (with 100 to 999 employees), and 22 among small companies (with 99 or less employees). Assuming that the ratios of sample groups classified by company size remained the same since the last survey (2004), based on the number of Japanese companies in Southern California (1,194) the total number of workers amounted to approximately 120,000 (2.9% up from the last survey). Of this figure, 115,000 (up 3.8%) were local employees, meaning that Japanese companies were contributing to the local economy through job creation.

2. Salaries and wages

The salaries and wages (including benefits) paid per California base among the Japanese companies surveyed stood at \$118,900 among large companies, \$66,500 among medium companies and \$57,300 among small companies. Assuming that the ratios of size-based group classifications (large, medium and small) remained the same since the last survey (2004), the average amount paid per employee was approximately \$59,500. This is a 13% increase since the last survey. The results suggest that Japanese companies are paying higher salaries and wages.

When the average amount paid per employee (\$59,500) is multiplied with the total number of employees with Japanese companies in Southern California (119,645), the total salaries paid by all Japanese companies in the region are estimated at approximately \$7.12 billion (16% up since the last survey).

3. Condition of medical insurance provision

Slightly less than 80 percent of the Japanese companies surveyed provided medical insurance for "employees and their families." Combined with the number of companies offering medical insurance for "employees only," almost all Japanese companies provided medical insurance for their employees. Additionally, nearly 80 percent of companies contributed over 80 percent of insurance premiums on behalf of their employees, and more than half of these companies bore the premium costs fully.

4. Donations in cash/goods and volunteer activities

Slightly more than 60 percent of the Japanese companies responding to the survey, or 231 companies, have donated cash, products and/or goods totaling \$10.69 million during 2005. The average amount donated per company was \$45,000. Overwhelming portions of donations went to "nonprofit organizations and funds," followed by "schools other than universities," and "local governments."

Also, one in seven Japanese companies were engaged in some kind of volunteer activity in 2005, which is a slight increase since the last survey (1%). Specific examples of such volunteer activity include cleanup programs at schools, parks and on beaches; goodwill visits to nursing homes for the mentally challenged; blood-donation campaigns; and donation of used books.

III. Evaluation of Investment and Business Environments

1. Advantages and attractions of the state of California

When asked about the advantages and attractions of the state of California, a little over 60 percent (60.5%) of 387 Japanese companies reported the market scale. This figure is a further 5% increase since the last survey, suggesting that the market size is still the greatest draw of the region. This is followed by the presence of logistical bases such as seaports and airports (39.0%), good weather (31.7%), the size of the Japanese community (28.1%), and California's proximity to Japan in terms of geographical location and time (22.1%).

On the other hand, four out of the top five advantages and attractions cited by the respondents decreased in their weights, suggesting that the attractiveness of California to Japanese companies is diminishing. Also, only one in six respondents reported attractiveness regarding the labor force, and the number of companies citing incentive measures offered by the state government and other agencies was also minimal. These suggest that local Japanese employers are not satisfied with the local government support amidst rising cost burdens due to higher minimum wages and other adverse policies.

Looking at the results in details by industry, three key trends are found.

The first is that "market scale" received a higher percentage than "size of the Japanese community" in all industries for the first time, suggesting that the business operations of Japanese companies in the U.S. are expanding beyond the Japanese community and are becoming the community-based companies.

The second is that while California is expected to enjoy continuous economic expansion at a faster pace than the national average, the degree of the state's attractiveness in terms of "market scale" varies among industries.

The third is that "presence of logistical bases" was cited as an important strength of the state by all transportation companies, and moreover it was also the greatest advantage reported by trading companies. This reconfirms the importance of "presence of logistical bases" to local Japanese companies.

2. Progress of target implementation for business expansion

When asked to evaluate the present business performance and results in light of the goals of expanding business operations to the state of California, 70 percent of those surveyed reported having a positive assessment. This figure is an increase of approximately 10 percentage points since the last survey (2004), and the percentages of companies "somewhat dissatisfied" or "very dissatisfied" with their business performance both decreased from the levels revealed in the last survey. These results suggest that the business performance of local Japanese companies improved further.

These figures are backed by a strong business trend among the respondents, with the percentage of companies projecting revenue increase amounting to slightly more than 60 percent (15% up from the last survey). Nearly 70% of companies projected profitability.

3. Future outlook

Nearly 60 percent of those surveyed said that their business results would "improve." When this figure is combined with the number of companies projecting "little change" but having a positive assessment of their present business performance and results, more than three-quarters of companies surveyed had positive forecasts with regard to their future

business performance. With only less than 20 percent anticipating “challenging results” in their forecasts, the business outlook of Japanese companies improved significantly.

4. Obstacles and complaints associated with business operations

Regarding the obstacles and complaints associated with conducting business in California, the major obstacle is “employment costs,” cited by 40 percent of the respondents. However, this is a significant drop (-34.6%) from the last survey where 75% of the respondents saw employment costs as obstacles. Other key obstacles cited by the respondents included “permit/approval procedures,” “traffic infrastructure,” “other” and “tax system,” in the order of number of responses from greatest to smallest. Among the companies citing “permit/approval procedures” as an obstacle, the driver’s license procedure was the greatest source of dissatisfaction, cited by 13 companies. Among “other reasons” expressed by the respondents, four companies said that they were dissatisfied with the housing environment due to the escalating housing prices amid the so-called “housing bubble.”

As for factors of concern over future business operations, largely four trends are seen. The first is that companies expressed increasing concerns over “the U.S. economy.” The percentage of companies voicing concerns in this area rose in all industries, with every finance/insurance company surveyed saying that they were concerned about U.S. economy.

The second is that anxieties over “rising employment costs,” which was the greatest concern in the last survey, eased. Although minimum wages continued to rise, reduced employer burdens for worker’s compensation insurance premiums and other positive factors are likely to have reduced the degree of concern.

The third is that concerns over “weakening corporate muscle of the parent company in Japan” decreased significantly. When the results are analyzed by industry type, the percentage of companies citing their parent’s weakening state as an area of concern dropped in all industries. In particular, none of the respondents in the finance/insurance sector voiced concerns in this area.

The fourth is that the ratio of companies concerned with the “effects of terrorism and international conflicts” also dropped considerably. In all industries, there is a double-digit decrease in the percentage of respondents citing terrorism as a cause of concern.

Among other trends, more than a half of respondents in the manufacturing sector were still concerned about “increasingly fierce competition with Chinese-made products,” while the ratio of construction/real estate companies citing “rising interest rates,” mainly due to escalating real estate prices, was more than 50 percent.

2006 Survey of Japanese Companies in Southern California

Contents

I. Overview of Japanese Companies in Southern California 1

 1. Geographic distribution 1

 2. Industrial distribution 2

 3. Corporate structure 3

 4. Timing of incorporation 4

 5. Revenues 6

II. Contributions to Regional Communities 7

 1. Job creation 7

 2. Salaries and wages 10

 3. Condition of medical insurance provision 11

 4. Donations in cash/goods and volunteer activities 12

III. Evaluation of Investment and Business Environments 14

 1. Advantages and attractions of the state of California 14

 2. Progress of target implementation for business expansion 16

 3. Future outlook 18

 4. Obstacles and complaints associated with business operations 20

[Reference 1] Specific Examples of Obstacles and Complaints Associated with Business Operations..... 22

[Reference 2] Examples of Japanese companies contributing to the U.S. society by introducing
superior environmental technologies, food culture, etc., from Japan 24

[Reference 3] New business programs initiated with California, timed with the visit
of the Governor of California to Japan (November 2004) 26

I. Overview of Japanese Companies in Southern California

1. Geographic distribution

Looking at geographic distribution by county, slightly more than 70 percent of the Japanese companies surveyed are still located in Los Angeles County, followed by Orange County (nearly 20%), and San Diego (a little less than 10%). Only small numbers of Japanese companies have offices in San Bernardino County, Riverside County, Ventura County.

When a breakdown by city is examined, the cities of Los Angeles and Torrance are home to nearly 40 percent of all respondents, followed by Irvine and San Diego.

[Table 1] Geographic Distribution Statistics

	Number of respondents	
		Ratio
Los Angeles	853	71.4%
Los Angeles	202	16.9%
Torrance	246	20.6%
Gardena	54	4.5%
Long Beach	33	2.8%
Carson	22	1.8%
Other	296	24.8%
Orange	217	18.2%
Irvine	71	5.9%
Cypress	25	2.1%
Other	121	10.1%
San Diego	87	7.3%
San Diego	63	5.3%
Other	24	2.0%
San Bernardino	15	1.3%
River Side	7	0.6%
Ventura	5	0.4%
Other	10	0.8%
Total of Southern California	1194	100.0%

Note 1: The number of respondents is based on the companies surveyed in the 2006 Fact-finding Survey of Japanese Companies in Southern California.

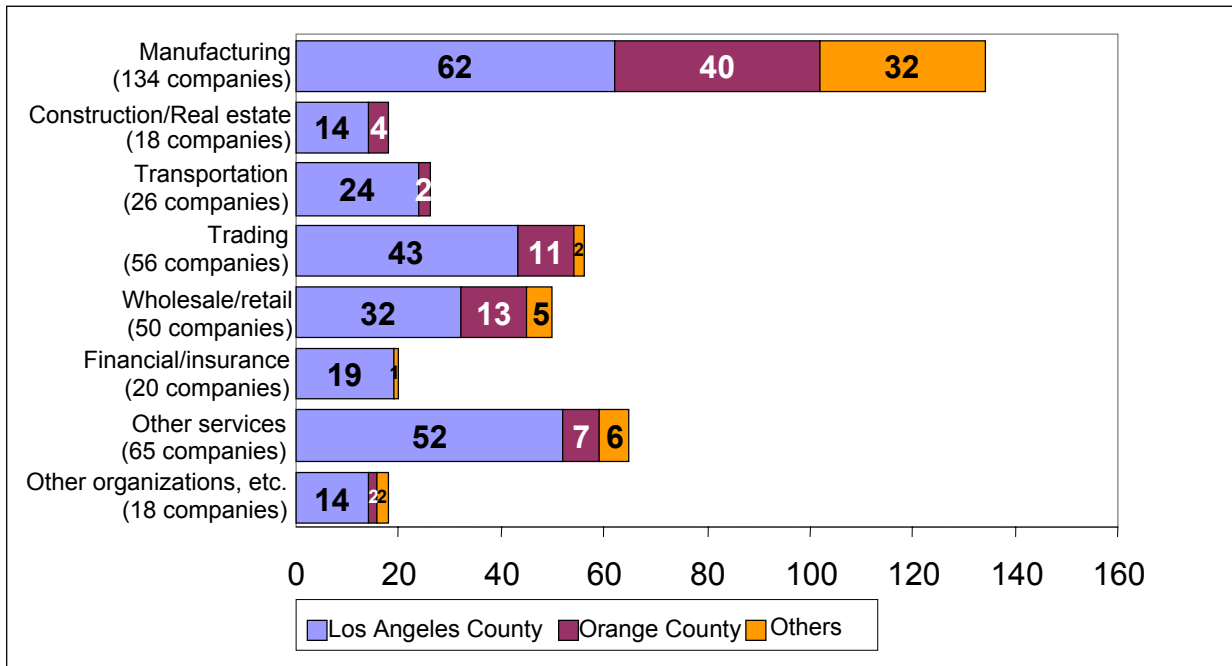
Note 2: The previous survey analyzed the responses from 1097 companies.

2. Industrial distribution (387 companies)

The largest segment in the industrial distribution (ratio) of the Japanese companies surveyed is the manufacturing industry (34.6%), followed by the other service industry (16.8%), trading (14.5%), and wholesale/retail (12.9%). These four industries account for more than three-quarters of all respondents.

From the standpoint of geographic locations, companies in most industries are concentrated in Los Angeles County, which serves as a business center in Southern California. However, the survey found that an increasing number of manufacturing businesses are located in San Diego, which includes the maquiladora zone where companies can take advantage of cheaper labor in Mexico. Some wholesale/retail companies are located in Orange County.

[Graph 1] Industrial Distribution Statistics



(Note) The number of manufacturers includes 24 companies in San Diego County, thanks to the participation in this survey by these companies operating in the maquiladora zone.

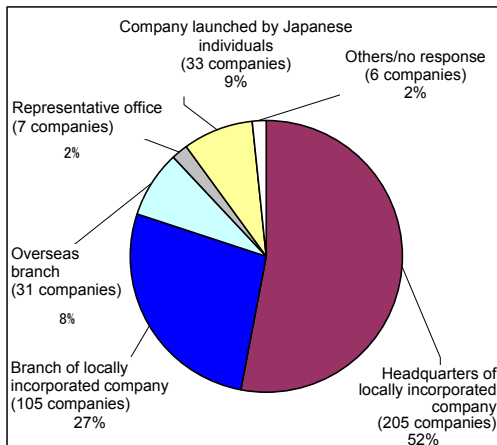
3. Corporate structure (387 companies)

Regarding the corporate structures among Japanese companies, approximately 80 percent of the companies responding are locally incorporated. Moreover, two-thirds of these locally incorporated companies serve as corporate headquarters, which suggests that Southern California still plays a vital geographic role for Japanese companies expanding to the U.S. market. However, the above figure is an 8% drop from the last survey, indicating that the advantages of having headquarters in California is decreasing.

The largest investors among two-thirds of those surveyed are Japanese companies, and most of them are wholly owned. These results suggest a trend toward independent, direct investment rather than mergers involving capitalization with local firms.

Regarding the form of corporate expansion, a significant number of companies entered the U.S. market by launching new companies, continuing the mainstream expansion trend. On the other hand, some Japanese companies entered the U.S. market through acquisitions of existing companies, the trend that has become increasingly popular since the late 1980s.

[Graph 2] Corporate Structures



[Table 2] Largest Investors (277 companies)

	Number of companies	Ratio
Japanese company	197	69.3%
Wholly owned	167	60.3%
At least 50% owned	25	9.0%
Japanese company based in the U.S.	43	15.5%
Japanese national or individual of Japanese origin	35	12.6%
Others	7	2.5%
Total	277	100.0%

[Table 3] Expansion Timing by Form of Expansion

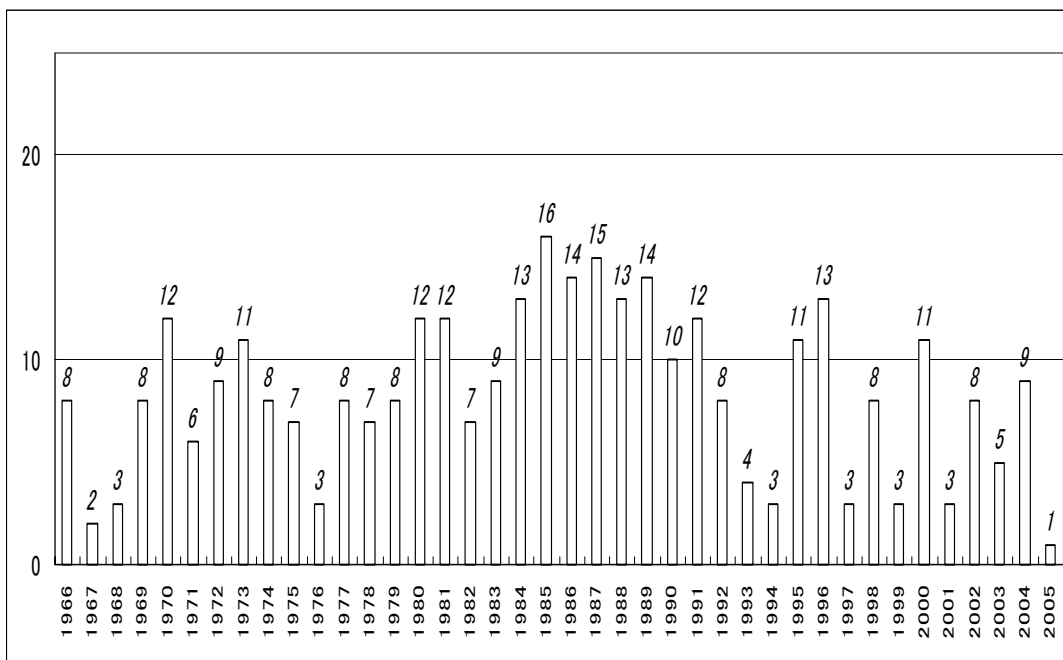
	Total	Incorporation	Acquisition	Capital participation	Other
1965 and before	32	30	1	1	
1966 to 1970	33	31		1	1
1971 to 1975	41	39	1	1	
1976 to 1980	38	33	3		2
1981 to 1985	57	51	4	2	
1986 to 1990	67	50	12	4	1
1991 to 1995	37	31	5	1	
1996 to 2000	42	36	2		4
2001 to 2005	23	18	4		1
Timing unknown	17	16		1	
Total	387	335	32	11	9

4. Timing of incorporation (337 companies)

The launches of Japanese companies in Southern California hit a peak in the late 1980s. Since then, the trend of declining number of launches by Japanese businesses has been into a bottom-out situation.

Viewing the background for market expansion from an historical perspective, Japanese companies expanded their operations to the U.S. market in the 1950s, primarily for the purpose of conducting market research and entering business deals. In the 1960s, Japanese companies entered the market to promote exportation to the U.S. and market expansion. In the 1970s, U.S.–Japan textile negotiations signaled the beginning of trade-friction issues related to sheet glass, televisions, iron and steel, semiconductors, etc., thus encouraging the subsequent U.S. expansion of Japanese companies for local production. In the 1980s, such local production was further promoted, due in part to the need to correct the imbalance of trade between Japan and the United States. Concurrently there was an increasing number of companies expanding to the U.S. market in search of investment opportunities in order to utilize excess funds generated on the back of the rising yen and bubble economy. Since the 1990s, some companies withdrew from the U.S. market in the aftermath of the collapse of the bubble economy, resulting in a slowdown in the U.S. expansion of Japanese companies.

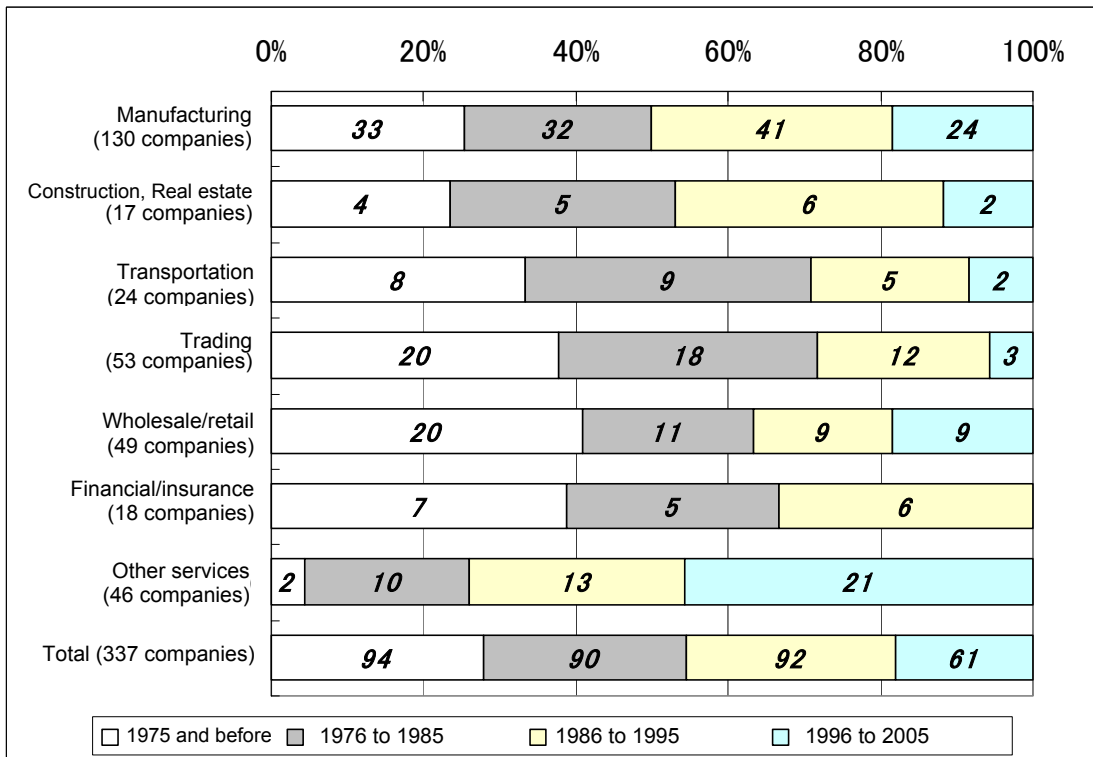
[Graph 3] Number of Companies by Year of Incorporation



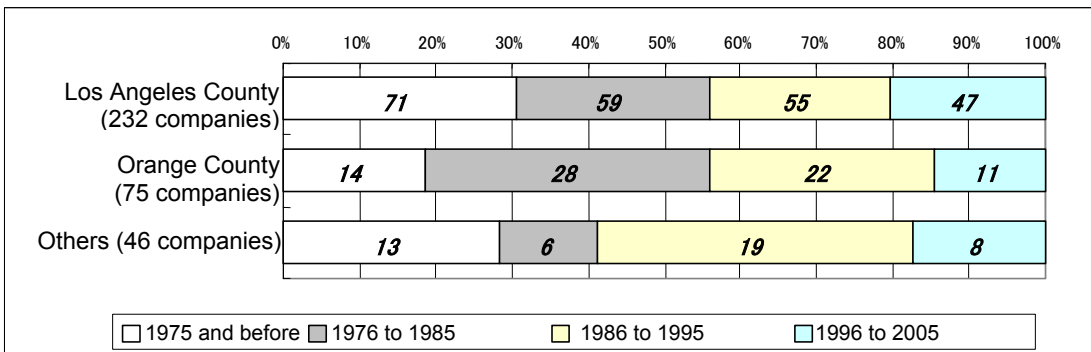
Looking at the results by industry, early Japanese entrants to the U.S. included wholesalers, retailers and trading companies that required a relatively small amount of capital investment, as well as transportation companies that supported the logistics operations of those companies, and finance and insurance companies that provided business funds for local Japanese corporations. Amid the backdrop of a stronger yen and a growing trade imbalance between Japan and the U.S., the subsequent years saw an increasing trend of Japanese manufacturers setting up production bases in the U.S. in order to expand their markets in earnest, above and beyond simply increasing their exports. The trend soon included service companies.

A breakdown by region shows that while Japanese companies established offices in Los Angeles County in early days, the numbers of those setting up bases in the surrounding areas, including Orange County, increased thereafter.

[Graph 4] Number of Companies by Industry According to Year of Incorporation



[Graph 5] Number of Companies by Geographic Location According to Year of Incorporation



5. Revenues (313 companies)

Looking at the sizes of companies responding to the survey in terms of revenues, those with revenues of less than \$10 million still accounted for the largest percentage (42.2%). On the other hand, companies generating more than \$100 million in revenue also accounted for a notable 23.0 percent, of which a little over 10 percent (10.5%) had revenues exceeding \$500 million. The ratio of the last group to the overall sample population doubled since the last survey (2004).

[Table 4] Number of Companies by Revenues

	Number of companies	Ratio
Less than \$1 million	34	10.9%
No less than \$1 million but less than \$5 million	57	18.2%
No less than \$5 million but less than \$10 million	41	13.1%
No less than \$10 million but less than \$50 million	84	26.8%
No less than \$50 million but less than \$100 million	25	8.0%
No less than \$100 million but less than \$500 million	39	12.5%
No less than \$500 million but less than \$1 billion	12	3.8%
\$1 billion or more	21	6.7%
Total	313	100.0%

II. Contributions to Regional Communities

1. Job creation

The average number of workers per Japanese company was 2,858 among large companies (with 1,000 or more employees), 291 among medium companies (with 100 to 999 employees), and 22 among small companies (with 99 or less employees). Assuming that the ratios of sample groups classified by company size remained the same since the last survey (2004), based on the number of Japanese companies in Southern California (1,194) the total number of workers amounted to approximately 120,000 (2.9% up from the last survey). Of this figure, 115,000 (up 3.8%) were local employees, meaning that Japanese companies were contributing to the local economy through job creation.

[Table 5] Total Number of Employments Created by Japanese Companies (estimate)

		Total	Employees sent from Japan	Local employees
Number of respondents		382		
Total number of employees		58,780		
Number of employments per company	Large companies (1,000 or more employees)	2858.2	17.3	2840.9
	Medium companies (100 to 999 employees)	290.9	10.6	280.3
	Small companies (99 or less employees)	21.9	2.3	19.6
Total number of employments (estimate)		119,645	4,564	115,080
<i>Data from previous survey (2004)</i>		<i>116,307</i>	<i>5,447</i>	<i>110,860</i>
<i>Data from previous survey (2002)</i>		<i>105,609</i>	<i>4,326</i>	<i>101,283</i>

Note 1: In view of the high percentage of large companies in the respondent sample of this survey, the total number of employments was estimated by applying the ratios of sample groups classified by company size based on the companies reported in the last survey (2004).

Note 2: The number of Japanese companies reported in the last survey was 1,097, while the survey before that covered 954 companies.

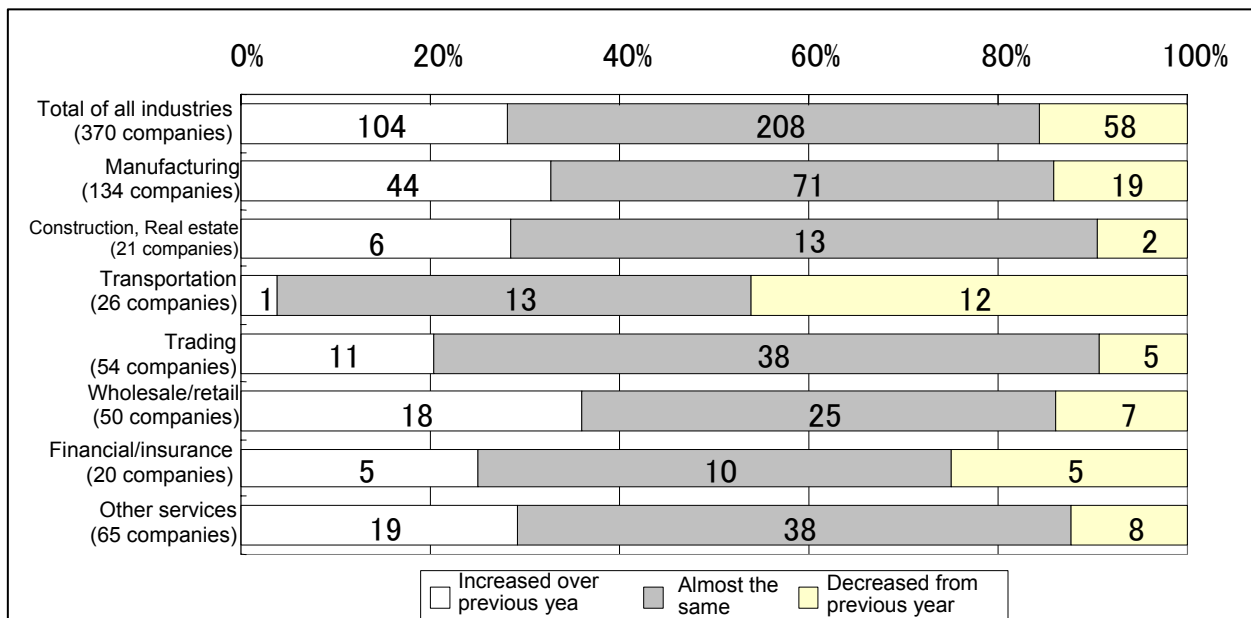
[Table 6] Employment Size by Industry (382 companies)

	Number of employees	Per-company average	Ratio
Manufacturing (133 companies)	25,342	190.5	43.1%
Construction, Real estate (18 companies)	774	43.0	1.3%
Transportation (26 companies)	1,755	67.5	3.0%
Trading (56 companies)	1,443	25.8	2.5%
Wholesale/retail (48 companies)	14,953	311.5	25.4%
Financial/insurance (20 companies)	8,987	449.4	15.3%
Other services (64 companies)	4,304	67.3	7.3%
Other organizations, etc. (17 companies)	1,222	71.9	2.1%
Total (382 companies)	58,780	153.9	100.0%

When asked to compare the number of employment positions against the previous year, 104 companies (28%) reported that they employed more, which was considerably more than the number of companies reporting fewer employment positions (58 companies, 16%). More than a half (56%) of all respondents reported that the number of employment positions was the same as the previous year.

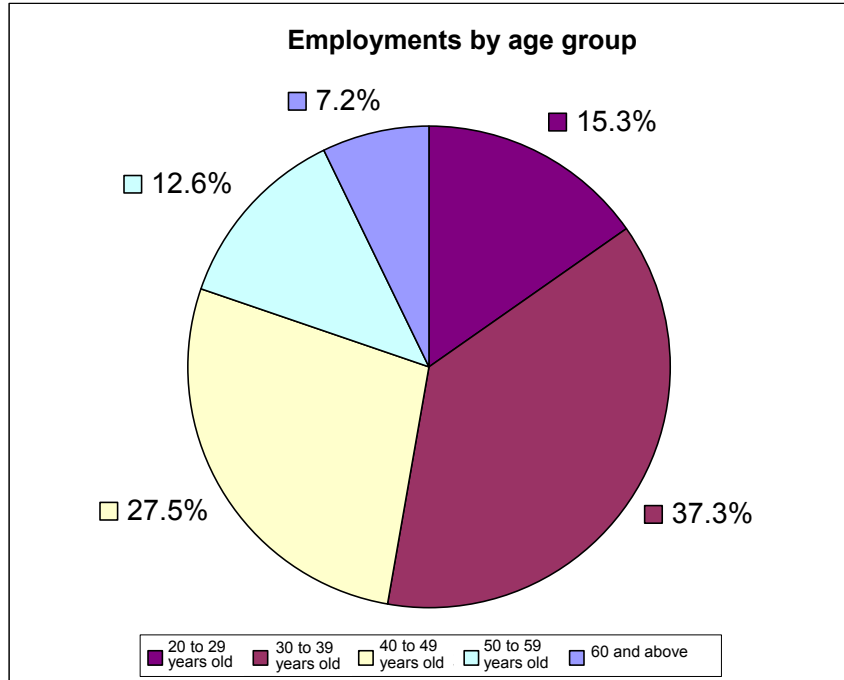
Viewing the results by industry, many of the companies reporting more employment positions were in the manufacturing, wholesale/retail and other service industries. Many of the companies reporting fewer employment positions were in the transportation industry.

[Graph 6] Changes in employment positions (relative to the previous year)



Looking at the number of locally stationing Japanese employees by age group, the largest age segment was 30 to 39 years old, accounting for 37.3 percent of all Japanese expatriates, followed by 40 to 49 years old (27.5%). These figures suggest that Japanese companies are sending to their U.S. operations those employees having sufficient experience within the company and thus expected to produce greater results and contributions than employees in other age groups.

[Graph 7] Breakdown of locally stationing Japanese employees by age group



2. Salaries and wages

The salaries and wages (including benefits) paid per California base among the Japanese companies surveyed stood at \$118,900 among large companies, \$66,500 among medium companies and \$57,300 among small companies. Assuming that the ratios of size-based group classifications (large, medium and small) remained the same since the last survey (2004), the average amount paid per employee was approximately \$59,500. This is a 13% increase since the last survey. The results suggest that Japanese companies are paying higher salaries and wages. For your reference, the median household income in California was \$49,894 in 2004.

When the average amount paid per employee (\$59,500) is multiplied with the total number of employees with Japanese companies in Southern California (119,645), the total salaries and wages paid by all Japanese companies in the region are estimated at approximately \$7.12 billion (16% up since the last survey).

[Table 7] Total Amount of Salaries and Wages Paid by Japanese Companies (estimate)

(Unit: In \$1,000s/year, company or employee)

Respondents	185		
Salaries and wages paid	1,915,562		
Average amount paid by company by size	Large companies	Medium companies	Small companies
	118.9	66.5	57.3
Estimate average salaries and wages	59.5		
Total number of employments	119,645		
Total amount of salaries and wages paid (estimate)	7,118,878		

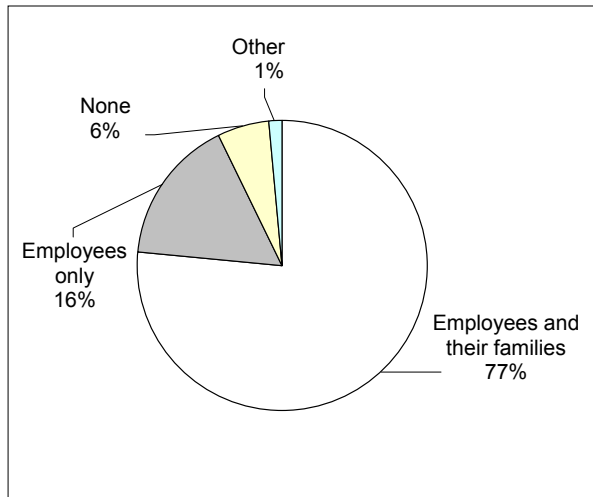
Note 1: The total number of employments is obtained through estimation in II-1 (in previous section).

Note 2: In view of the high percentage of large companies in the respondent sample of this survey, the total salaries and wages paid were estimated by calculating the annual averages for respective company sizes (large, medium and small) and applying the ratios of sample groups classified by company size based on the companies reported in the last survey (2004).

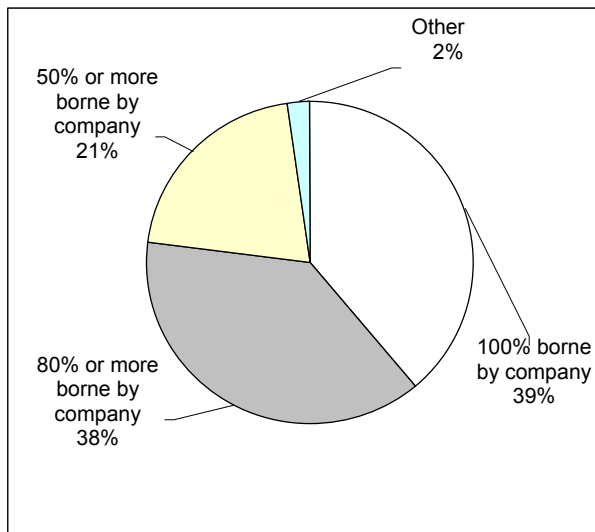
3. Condition of medical insurance provision

Japanese companies pay sufficient medical benefits for their employees. Slightly less than 80 percent (77%) of the Japanese companies surveyed provided medical insurance for “employees and their families.” Combined with the number of companies offering medical insurance for “employees only,” almost all Japanese companies (93%) provided medical insurance for their employees. Additionally, nearly 80 percent (77%) of companies contributed over 80 percent of insurance premiums on behalf of their employees, and more than half of these companies bore the premium costs fully.

[Graph 8] Condition of medial insurance provision (381 respondents)



[Graph 9] Ratios of medical insurance premium contributions (company contributions) (350 respondents)



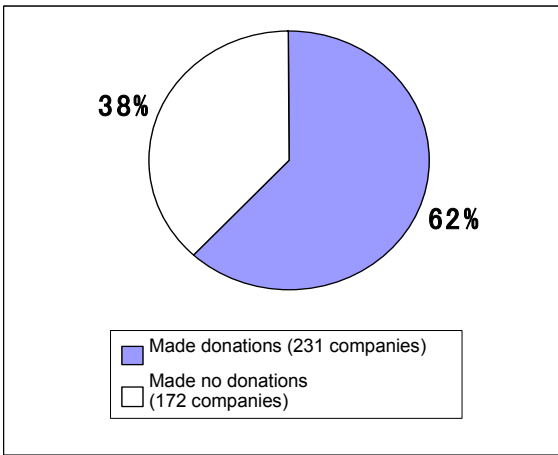
4. Donations in cash/goods and volunteer activities

Most of the Japanese companies surveyed continue to contribute to the local society and communities in which they operate.

Slightly more than 60 percent of the Japanese companies responding to the survey, or 231 companies, have donated cash, products and/or goods totaling \$10.69 million during 2005. This figure does not include donations by individuals. The average amount donated per company was \$45,000.

Donations in cash and goods were contributed predominantly to “various nonprofit organizations and funds,” followed by “schools other than universities,” and “local municipalities.”

[Graph 10] 2005 Statistics of Donations in Cash and Goods

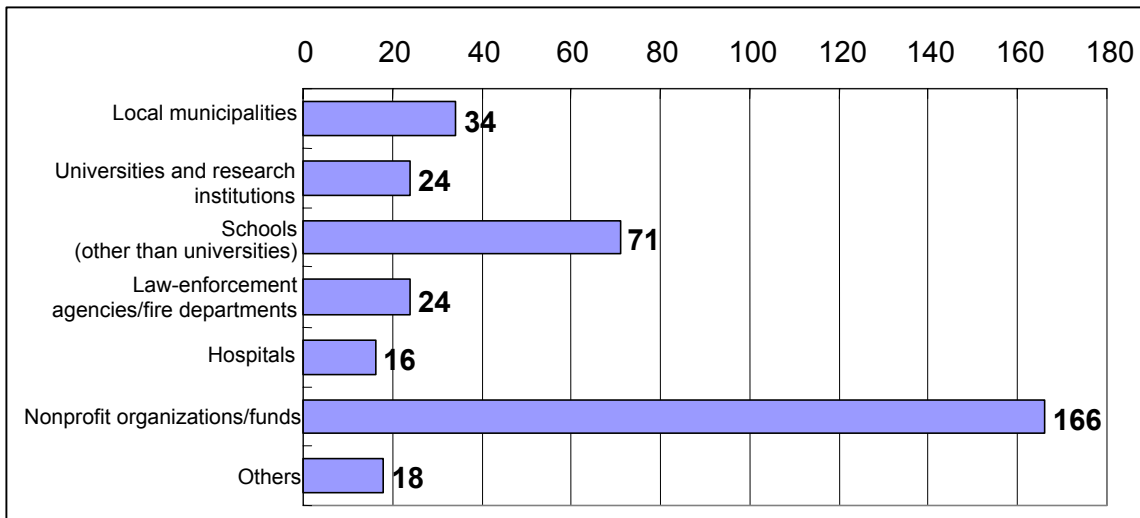


[Table 8] Donation Amounts for 2005

(Figures in thousands of dollars)

	Donations in cash/goods
Total amount	10,694
Per-company average donation amount	45

[Graph 11] Donation Destinations for 2005

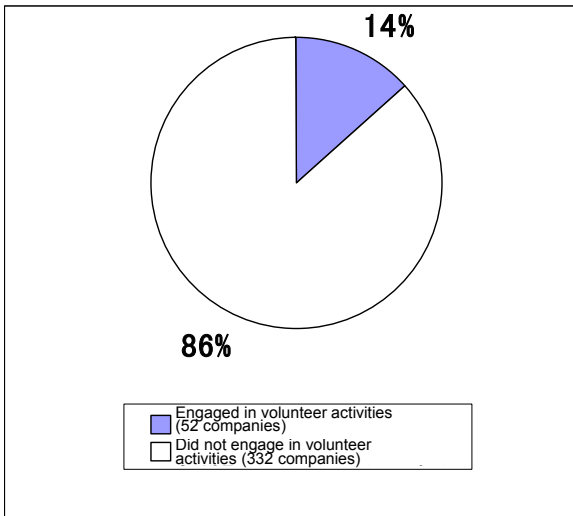


[Table 9] 2005 Statistics of Donations in Cash and Goods by Amount Category

	Number of companies	Ratio
Less than \$1,000	41	22.5%
No less than \$1,000 but less than \$5,000	65	35.7%
No less than \$5,000 but less than \$10,000	19	10.4%
No less than \$10,000 but less than \$50,000	37	20.3%
No less than \$50,000 but less than \$100,000	9	4.9%
No less than \$100,000 but less than \$500,000	10	5.5%
\$500,000 or more	1	0.5%
Total	182	

Additionally, one in seven Japanese companies reported engaging in some kind of volunteer activity in 2005, which is a slight increase since the last survey (1%). Specific examples of such volunteer activity include cleanup programs at schools, parks and on beaches; goodwill visits to nursing homes for the mentally challenged; blood-donation campaigns; and donation of used books.

[Graph 12] 2005 Statistics of Volunteer Activities



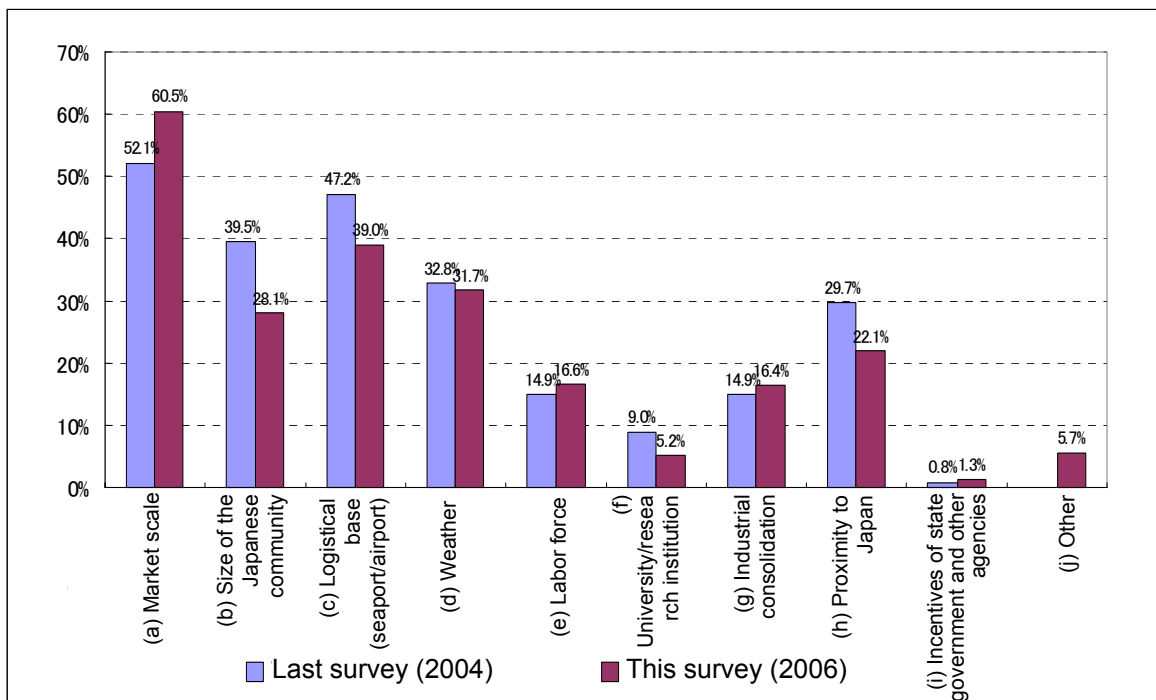
III. Evaluation of Investment and Business Environments

1. Advantages and attractions of the state of California

When asked about the advantages and attractions of the state of California, a little over 60 percent (60.5%) of 387 Japanese companies reported the market scale. This figure is a further 5% increase since the last survey, suggesting that the market size is still the greatest draw of the region. This is followed by the “presence of logistical bases” such as seaports and airports (39.0%), “good weather” (31.7%), the “size of the Japanese community” (28.1%), and “California’s proximity to Japan in terms of geographical location and time” (22.1%).

On the other hand, four out of the top five advantages and attractions cited by the respondents decreased in their weights, suggesting that the attractiveness of California to Japanese companies is diminishing. Furthermore, only one in six respondents reported attractiveness regarding the labor force, and an extremely small number of those surveyed found the incentives of state government and local agencies attractive. These suggest that local Japanese employers are not satisfied with the local government support amidst rising cost burdens due to higher minimum wages and other adverse policies.

[Graph 13] Advantages and Attractions of the State of California (multiple responses)



Looking at the results in details by industry, three key trends are found.

The first is that “market scale” received a higher percentage than “size of the Japanese community” in all industries for the first time, suggesting that the business operations of Japanese companies in the U.S. are expanding beyond the Japanese community and are becoming the community-based companies.

The second is that while California is expected to enjoy continuous economic expansion at a faster pace than the national average, the degree of the state’s attractiveness in terms of “market scale” varies among industries. As more than a half of the respondents surveyed cited “market scale” as one of the advantages of California, there is a consensus among the companies about the significance of the state’s market size. Finance/insurance, manufacturing and wholesale/retail companies attached more significance to this area than they did in the last survey. On the other hand, transportation, trading and other service companies attached less significance, with less than a half of the respondents in these industry sectors considering California’s market scale attractive.

The third is that “presence of logistical bases” was cited as an important strength of the state by all transportation companies, and moreover it was also the greatest advantage reported by trading companies. This confirms the importance of “presence of logistical bases” to local Japanese companies.

[Table 10] Advantages and Attractions of the State of California (by industry)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Manufacturing (134 companies)	69%	15%	39%	30%	19%	3%	17%	18%	3%	5%
Construction, Real estate (18 companies)	78%	33%	0%	33%	17%	0%	17%	6%	0%	0%
Transportation (26 companies)	39%	39%	100%	23%	8%	0%	12%	15%	0%	4%
Trading (56 companies)	38%	9%	63%	27%	20%	2%	14%	25%	2%	5%
Wholesale/retail (50 companies)	66%	34%	38%	26%	4%	6%	10%	12%	0%	6%
Financial/insurance (20 companies)	80%	65%	10%	20%	5%	0%	15%	0%	0%	5%
Other service (65 companies)	48%	42%	14%	23%	14%	8%	22%	34%	0%	3%

Note 1: The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.

Note 2: (a) through (j) are as described below.

- (a) Market scale
- (b) Size of the Japanese community
- (c) Logistical base (seaport/airport)
- (d) Weather
- (e) Labor force
- (f) University/research institution
- (g) Industrial consolidation
- (h) Proximity to Japan
- (i) Incentives offered by the state government and other agencies
- (j) Other

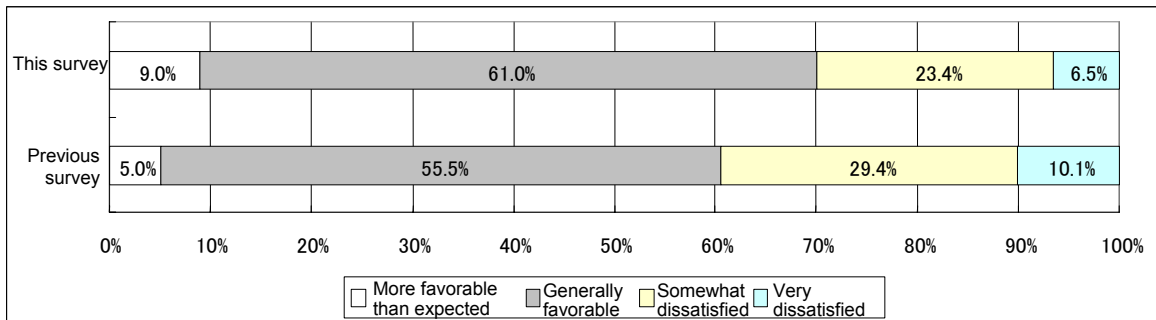
2. Progress of target implementation for business expansion

When asked to evaluate the present business performance and operating results in light of the goals of expanding business operations to the state of California, 70 percent of those surveyed reported having a positive assessment. This figure is an increase of approximately 10 percentage points since the last survey (2004), and the percentages of companies “somewhat dissatisfied” or “very dissatisfied” with their business performance both decreased from the levels revealed in the last survey. These results suggest that the business performance of local Japanese companies improved further.

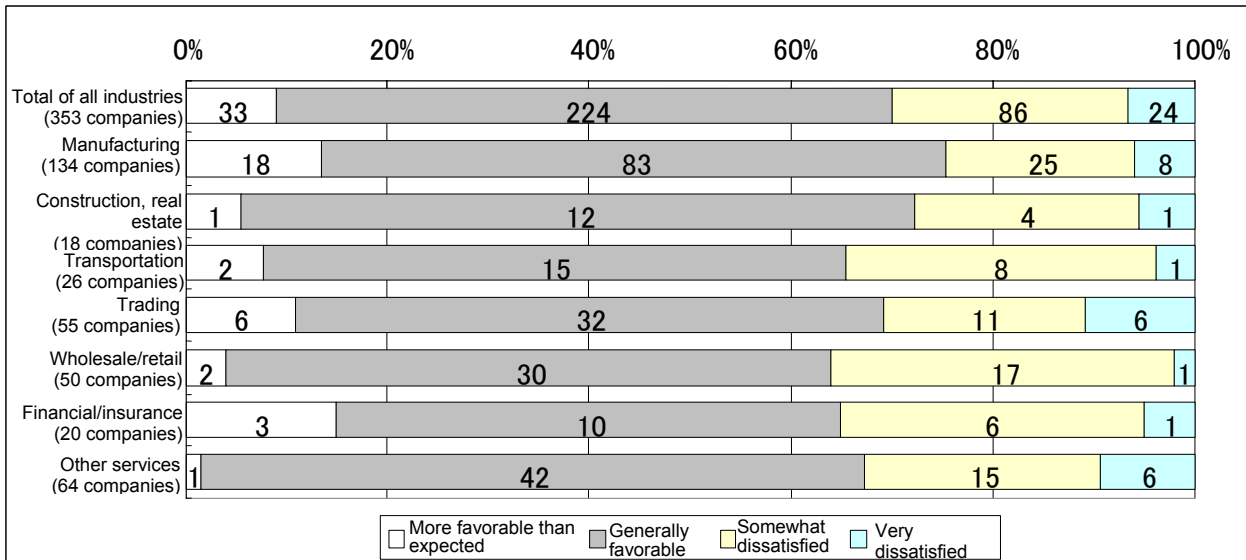
These figures are backed by a strong business trend among the respondents, with the percentage of companies projecting revenue increase amounting to slightly more than 60 percent (15% up from the last survey). Nearly 70% of companies projected profitability.

Viewing the question by industry, the percentage of companies giving “favorable” assessments was higher in the manufacturing, construction/real estate and trading industries, while relatively more companies in the wholesale/retail, transportation and financial/insurance industries expressed “dissatisfaction” with their business performance.

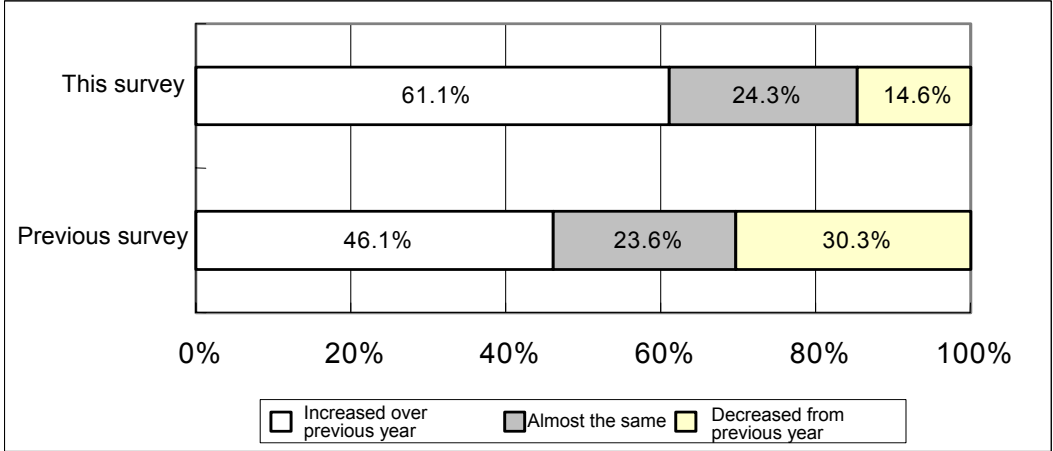
[Graph 14] Evaluation of Business Performance and Operating Results in the State of California (as per business-expansion goals) (All industry types)



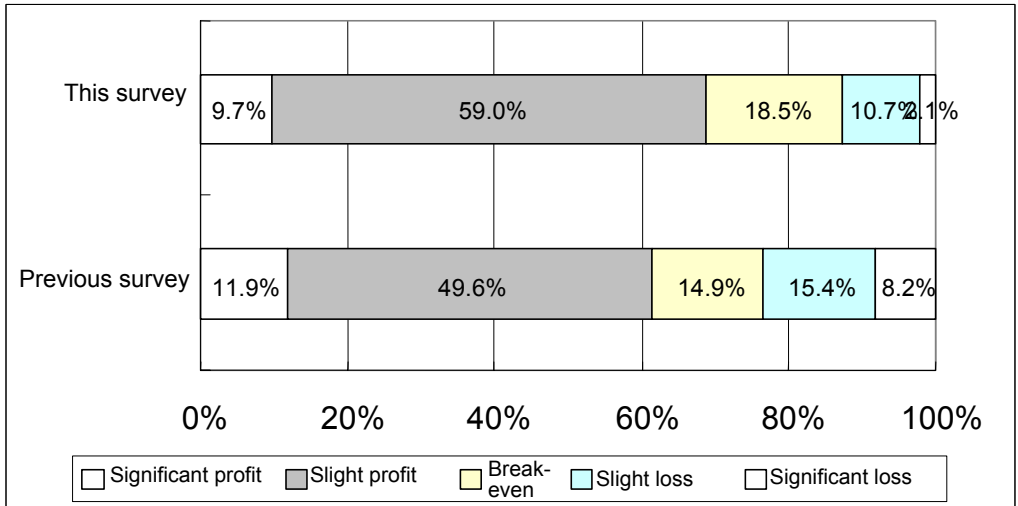
(Responses by industry)



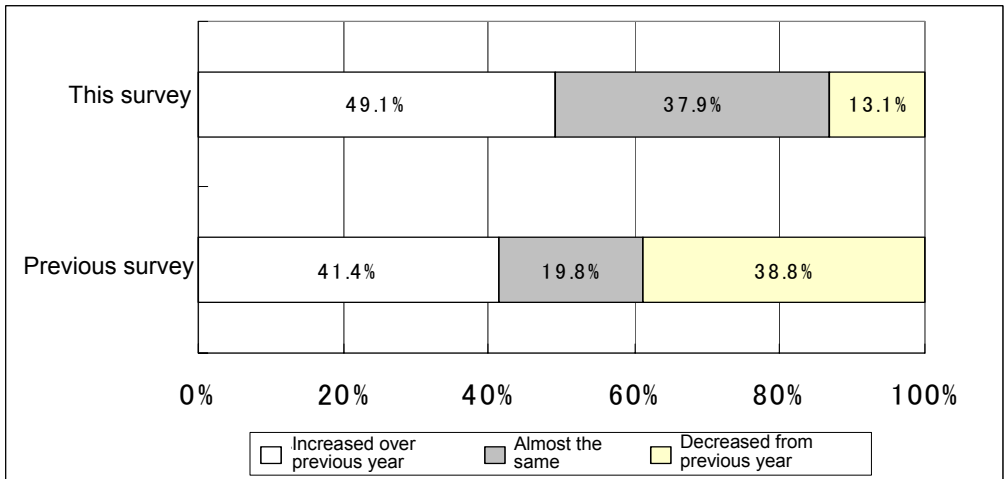
[Graph 15] Revenues for 2005 (All industry types (383 responses))



[Graph 16] Operating Profit for 2005 (All industry types (383 responses))



[Graph 17] Operating profit for 2005 (comparison with previous year, (All industry types (383 responses))



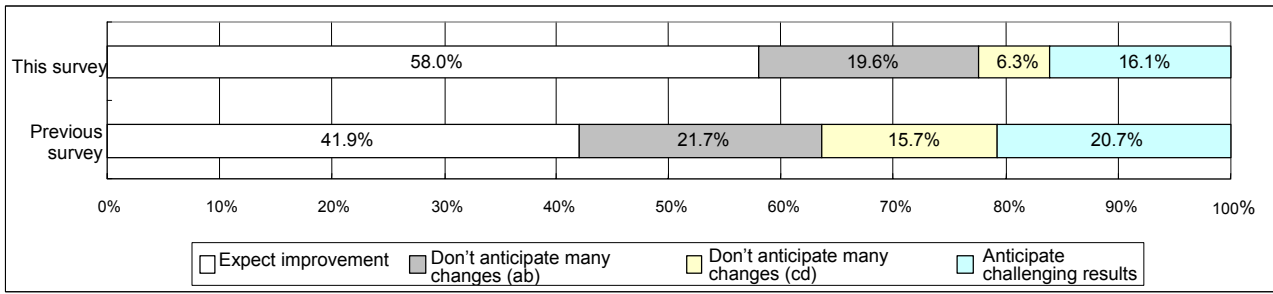
(1)

3. Future outlook

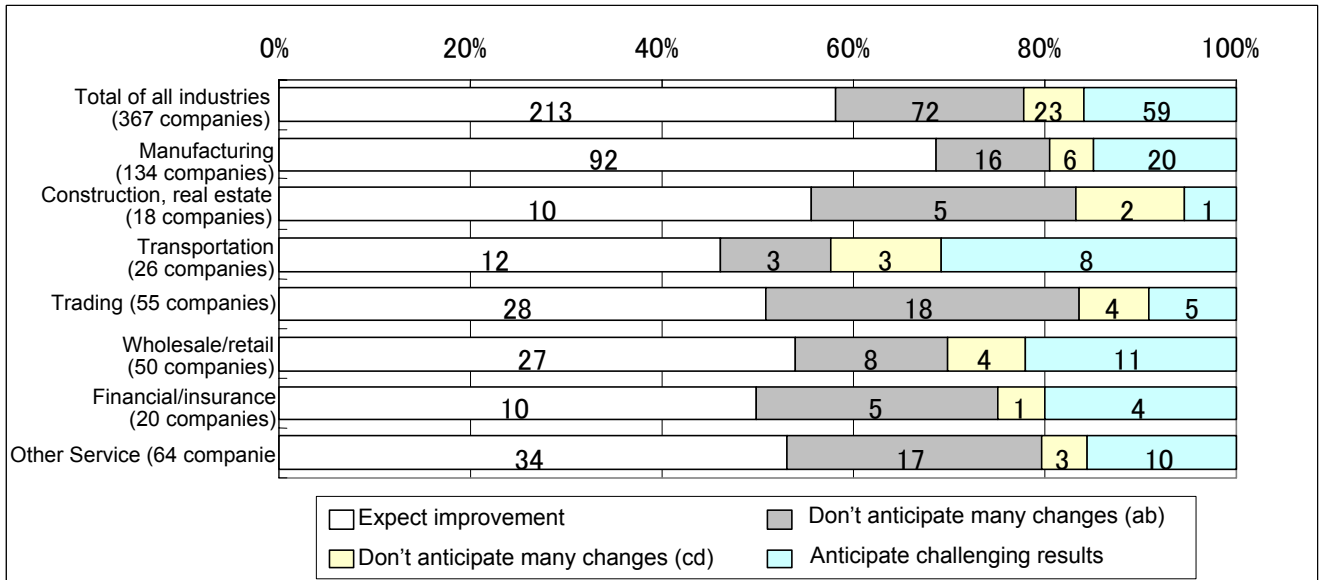
Nearly 60 percent of those surveyed stated that they "expect improvement" in the outlook for the future business performance. Adding those responding that they "don't anticipate many changes," which stated "favorable" in their assessments of present business performance and operating results, more than three-quarters of companies surveyed had positive forecasts with regard to their future business performance. With only less than 20 percent anticipating "challenging results" in their forecasts, the business outlook of Japanese companies improved significantly.

Viewed by industry, many manufacturers had positive outlooks, while increasing numbers of companies in the trading and construction/real estate industries also had favorable views going forward. On the other hand, more companies in the finance/insurance, wholesale/retail and transportation industries anticipated challenging results ahead.

[Graph 18] Future Outlook (367 responses)
(All industry types)



(Responses by industry)

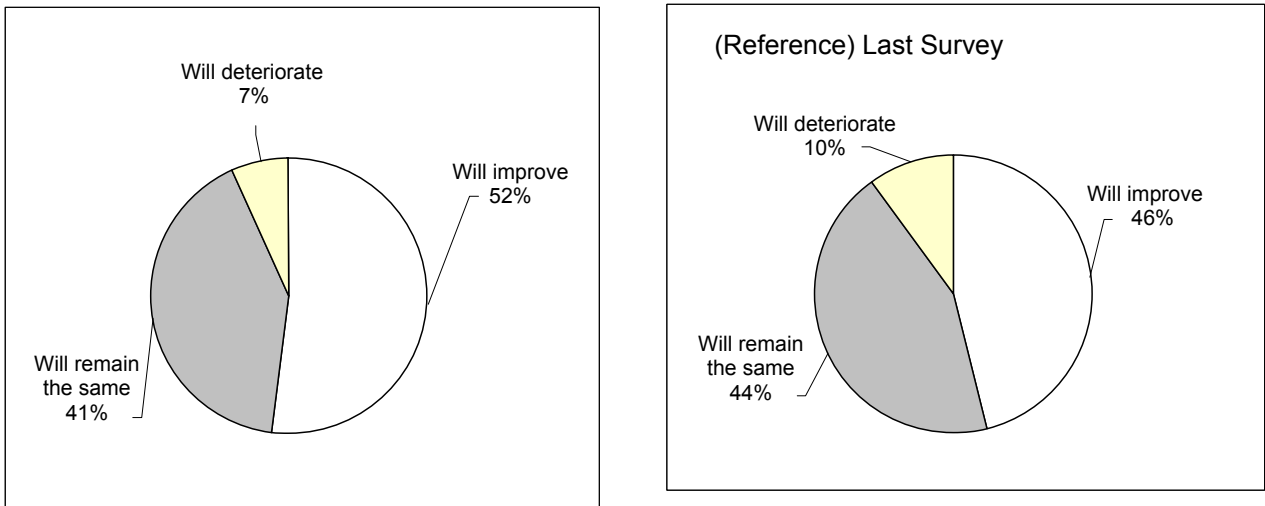


Note 1: "Don't anticipate many changes (ab)" is for the respondents that see the present business performance as favorable.

Note 2: "Don't anticipate many changes (cd)" is for the respondents that are dissatisfied with the present business performance.

As for the operating profit forecasts for the next couple of years, more than a half, or 52 percent, of the respondents surveyed anticipated “improvement,” with 41 percent reporting that their profit levels “would remain the same.” Overall, an overwhelming number of Japanese companies were bullish about their business forecasts. The ratio of companies anticipating deterioration in business results was 7 percent, down from the last survey (10%).

[Graph 19] Operating Profit Forecasts for the Next Couple of Years (383 responses)

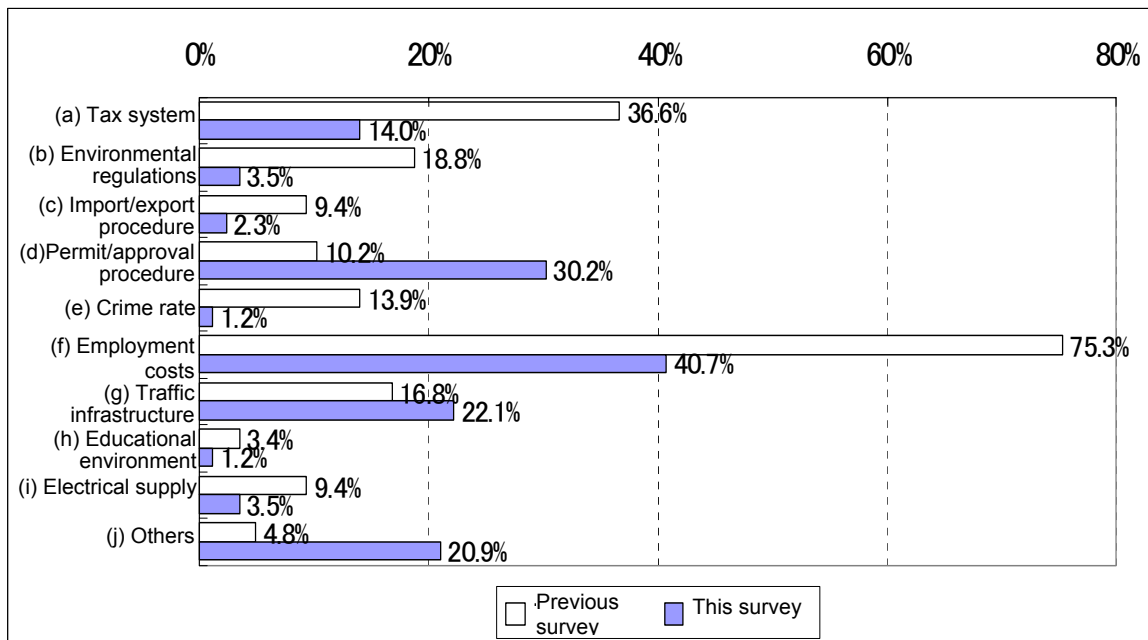


4. Obstacles and complaints associated with business operations

Regarding the obstacles and complaints associated with doing business in California, the major obstacle is “employment costs,” cited by 40 percent of the respondents. However, this percentage is a significant drop (down 34.6%) from the last survey (2004) where 75 percent of companies cited “employment costs” as an obstacle or source of dissatisfaction.

Other key obstacles cited by the respondents included “permit/approval procedures,” “traffic infrastructure,” “other” and “tax system,” in the order of number of responses from greatest to smallest. Among the companies citing “permit/approval procedures” as an obstacle, the driver’s license procedure was the greatest source of dissatisfaction, cited by 13 companies. Among “other reasons” expressed by the respondents, four companies said that they were dissatisfied with the housing situation due to the escalating housing prices amid the so-called “housing bubble.”

[Graph 20] Obstacles and Complaints Associated with Business Operations (multiple responses)



As for factors of concern over future business operations, largely four trends are seen.

The first is that companies expressed increasing concerns over “the U.S. economy.” The percentage of companies voicing concerns in this area rose in all industries, with every finance/insurance company surveyed saying that they were concerned about U.S. economy.

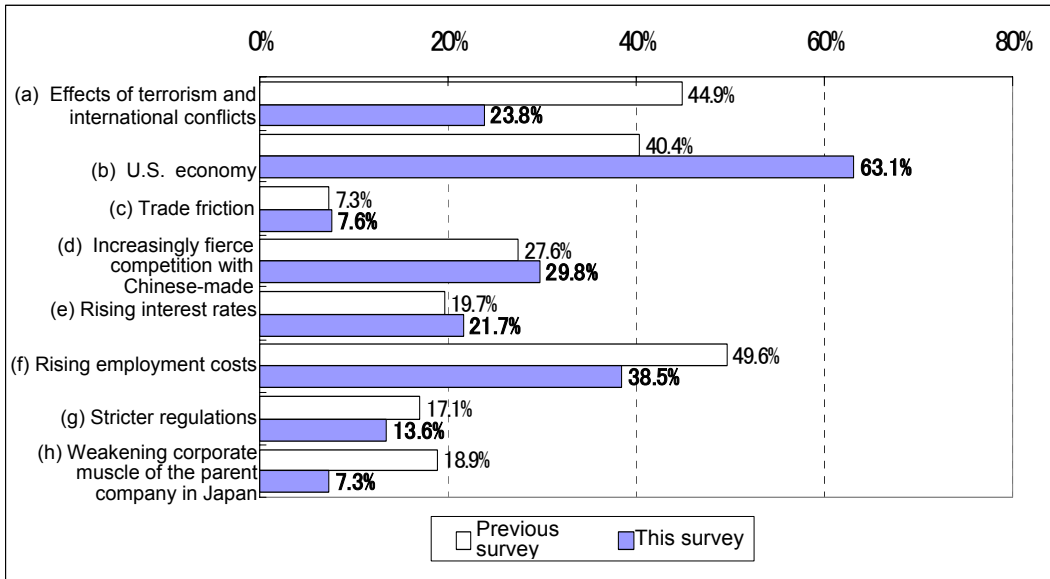
The second is that anxieties over “rising employment costs,” which was the greatest concern in the last survey, eased. Although minimum wages continued to rise, reduced employer burdens for worker’s compensation insurance premiums and other positive factors are likely to have reduced the degree of concern.

The third is that concerns over “weakening corporate muscle of the parent company in Japan” decreased significantly. When the results are analyzed by industry type, the percentage of companies citing their parent’s weakening state as an area of concern dropped in all industries. In particular, none of the respondents in the finance/insurance sector voiced concerns in this area.

The fourth is that the ratio of companies concerned with the “effects of terrorism and international conflicts” also dropped considerably. In all industries, there is a double-digit decrease in the percentage of respondents citing terrorism as a cause of concern.

Among other trends, more than a half of respondents in the manufacturing sector were still concerned about “increasingly fierce competition with Chinese-made products,” while the ratio of construction/real estate companies citing “rising interest rates,” mainly due to escalating real estate prices, was more than 50 percent.

[Graph 21] Concerns over business operations in the future



[Table 11] Concerns over business operations in the future (by industry)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Manufacturing (134 companies)	13%	57%	10%	51%	23%	45%	10%	6%
Construction/real estate (22 companies)	23%	68%	0%	0%	50%	23%	9%	5%
Transportation (24 companies)	38%	83%	17%	21%	25%	54%	17%	13%
Trading (59 companies)	31%	42%	12%	27%	22%	29%	10%	7%
Wholesale/retail (65 companies)	14%	54%	6%	28%	11%	26%	14%	6%
Financial/insurance (16 companies)	38%	100%	0%	0%	31%	56%	38%	0%
Other services (71 companies)	32%	65%	0%	4%	10%	30%	13%	10%

(Note): The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.

[Reference 1] Specific Examples of Obstacles and Complaints Associated with Business Operations

(Overall business environment)

- Speed up immigration procedures. Improve and speed up tax reform, etc.
- Make the regulations easier to understand.
- Although the government puts weight on environmental measures, public transportation policies are insufficient. The local government is expected to implement policies that face the reality of environmental and energy issues, such as those promoting uses of buses, subways, monorails and other means of transportation besides cars.

(Prices)

- Escalating commodity prices.
- High crude oil prices.
- Rising oil prices.
- Need to suppress the sharp increase of energy related costs.
- Dollar gone up.
- Higher interest rate.

(Employment/labor force/worker's compensation insurance)

- Lack of talented individuals.
- We conduct school-related business and provide support for foreign students looking to study in the U.S. The visa application and approval situations, particularly those concerning the student visa (F-1), vary significantly from country to country, and the authority refuses to explain reasons for turning down certain visa applications. This is giving us real headache.
- There are significant costs and risks (including litigation risks) associated with employing workers in California. In the area of sending Japanese employees for local posts, there are no legal problems (they are given an official status, although no social security number is given). However, many problems arise in relation to the immigration examination and issuance of driver's licenses to spouses, due to lack of knowledge of immigration laws among the internal staff in charge.
- Quick improvement of the worker's compensation insurance scheme, stabilization of insurance premiums, reduction of health insurance/medical costs, reduction of gasoline prices.
- The present labor/employment situations in California are in a serious state from the employer's viewpoint.
- Immigration law
- Review the quotas for working visas to allow companies to find labor more easily. Reduce the tax burdens on employers.

(Customs)

- Sometimes imported goods are held up for customs clearance, etc., at the port over a prolonged period, or ships cannot enter the port.
- It takes long time to clear the customs

(Other)

- Regulations on food import.
- Increased regulations on food safety.
- Terrorisms, Iraq war, bird flu.
- Uncertainty of the outcome of the Iraq War.
- SARS
- Increasing resource consumptions in China.
- Weather.
- We are promoting Wind Turbine technology, which is originally developed by NEDO funds. Our problem is (that) there is not any funds for demonstration unit by California Government. We are talking with California Governor's office.

[Reference 2]

Examples of Japanese companies contributing to the U.S. society by introducing superior environmental technologies, food culture, etc., from Japan

(Environment/energy)

- Exhaust gas reduction for cargo-handling equipment used at terminals.
- Implementation of energy-saving programs (electricity, gas, water). Total elimination of environmentally harmful substances. Obtainment of “Energy Star” certification for products.
- We are examining introducing energy-saving technologies, etc., to our U.S. subsidiary.
- We contribute to prevention of environmental pollution by investing heavily in “clean energy” production facilities.
- We are driving the development of hybrid vehicles, fuel cell vehicles, etc., while actively implementing other environmental programs such as recycle drive, ride share, and beach cleaning.
- The U.S. has excess stocks of recycled resources such as iron and non-iron scraps. These resources must be exported overseas to reap the real benefit of recycling. We provide an interface on recycled materials between Asia and the U.S. to promote recycling of these limited resources and help put recycled resources to effective use.
- We are the first Japanese company to receive an Energy Star certification in the U.S. for enamel technology. We are currently the industry leader in this field.
- Development and popularization of energy-saving (low current consumption) products.
- Ethanol business, health food business, recycle business, etc.
- We recycle materials (although the technologies we use are not particularly of Japanese origin). We are also using ingenious ways to reduce the use of plastic products.
- Utilization of solar energy: Construction of carparks, etc., using solar PV roofs.
- We will introduce VOC-free (VOC: Volatile Organic Compounds) wall materials for residential construction in the U.S. We will also introduce water-based rustproofing agents for printed circuit boards to allow for use of lead-free solders.
- Implementation of zero-waste movement (elimination of landfill waste generation from factory operation) at our U.S. subsidiary, and education of affiliates and suppliers. (One supplier was recognized by the City of Cerritos where they operate, for their zero-waste drive implemented with guidance from our company.)
- Tankless water heater (instantaneous gas water heater). Achieving higher efficiency than conventional tank-type heaters, this technology is energy-saving, environmentally friendly, space-saving, safe, and does not cause the problem of running out of hot water supply unlike tank-type heaters. We are the first company to introduce this technology to the U.S., so we believe the product itself is contributing to U.S. consumers.
- Education on zero emissions.

(Health)

- We conduct research and development of drugs to help people maintain and increase their health.
- (1) Development of lactoprotein-derived drugs for treatment of prehypertension
- (2) Development of feed additives using live bacteria that are free of antibiotics
- Provision of products designed for promotion of health, and reduction of waste generation in manufacturing processes.

(Food culture)

- We want to introduce tasty Japanese food to consumers across the U.S.
- We sell natural, low-fat and delicious food products that use ingredients offering high nutritional values.
- Sale of seafood and other food products (import/export).
- Provision of new “food culture.”
- Presentation of Japanese food culture.
- Popularization of healthy Japanese food.

(Business know-how, etc.)

- Popularization of Japan’s convenient store culture in the U.S. (offering greater convenience and other benefits).
- Our aim is to let American companies know the difference in service quality between Japanese and U.S. companies, thereby contributing to the improvement of service quality in the U.S.
- introducing trade knowledges to American suppliers and packing houses

[Reference 3]

New business programs initiated with California, timed with the visit of the Governor of California to Japan (November 2004)

- Construction of office building inside the UCSD campus.
- For renewable energy resources, we have started promoting Japanese developed wind turbines to California.
- Local production project in California.
- Opening new stores.
- Provision of support for foreign students wanting to study in the U.S. Relaxing of visa requirements for foreign high-school students.